Contrarian Value Investors: Get Greedy With This Cheap Growth Stock Today

Description

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I'm a big fan of Warren Buffett's investment philosophy of investing in the stocks of boring businesses with fairly predictable earnings growth trajectories. In a time of constant technological disruption, however, it's become tough for the average investor to fully understand and know what to expect over the course of five years, let alone the next decade and beyond.

With so many unforeseen disruptions that could derail an investment thesis down the road, it's become common practice to jump in and out of stocks on a whim, as negative events you never thought of may not be fully factored into your original thesis.

As a result, many investors may be vulnerable to making excessive trading activity that may ultimately dampen longer-term results, as such actionable events are often overly focused on the short term and fail to consider the longer-term picture, which may still be intact.

If you adopt Warren Buffett's mantra by "investing in what you know," you'll be better-equipped to tell the difference between actual actionable events and market "noise," which should either be ignored or acted upon in a contrarian fashion, i.e., buying on dips triggered by shorter-term news events).

Consider **Spin Master Corp.** (TSX:TOY) stock, a prime example of a Buffett business that's been hit on the head with above-average amounts of volatility thoughout its brief history as a TSX-traded security. Each negative event created opportunistic entry points that quickly rewarded contrarians, who were able to think beyond the negative headlines in order to consider how recent developments fit into the bigger picture.

Whether it's through a widespread manufacturing malfunction of a blockbuster toy during the holiday season or the death of the toy industry's number one brick-and-mortar retailer, the longer-term growth story for Spin Master remains as strong as it's ever been in spite of the toy industry's hazy future.

Spin Master's innovation-driven organic and inorganic growth initiatives will allow the company to continually yield promising "hit" products out of its pipeline akin to a pharma firm with a massive R&D budget. Unlike pharma firms, however, it's easier to forecast how Spin Master's toys will fare in the open market before they actually hit shelves. In addition, a toy pipeline requires substantially less capital per dollar of expected return.

Toy stocks may be cyclical and boring (if you're an adult), but in the case of Spin Master, you're getting a rising star that appears poised to catch up with its bigger brothers in the space over the next few years. Management has taken their own spin on a boring industry by leveraging innovative technologies in order to threaten less tech-savvy incumbents.

Shares of Spin Master are down ~15% from 52-week highs, thanks to the recent bankruptcy of U.S.-based Toys "R" Us locations. I think this dip is yet another gift from Mr. Market for shareholders willing to put up with volatility in return for market-beating long-term gains.

While the loss of Toys "R" Us will likely leave a dent in the top-line over the foreseeable future, Spin Master's healthy balance sheet will allow it the financial flexibility to make the most out of a bad situation as management goes on the hunt for acquisition opportunities in an industry that's faced immense pressures of late.

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1. TSX:TOY (Spin Master)

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